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FM AMEMBASSY RANGOON
TO RUEHC/SECSTATE WASHDC IMMEDIATE 9677
INFO RUCNASE/ASEAN MEMBER COLLECTIVE
RUEHBK/AMEMBASSY BANGKOK 3110
RUEHBJ/AMEMBASSY BEIJING 2457
RUEHBY/AMEMBASSY CANBERRA 2360
RUEHKA/AMEMBASSY DHAKA 5329
RUEHLO/AMEMBASSY LONDON 2289
RUEHNE/AMEMBASSY NEW DELHI 5854
RUEHUL/AMEMBASSY SEOUL 9420
RUEHTC/AMEMBASSY THE HAGUE 0871
RUEHKO/AMEMBASSY TOKYO 7039
RUEHCN/AMCONSUL CHENGDU 1917
RUEHCHI/AMCONSUL CHIANG MAI 2381
RUEHCI/AMCONSUL KOLKATA 0756
RHHMUNA/CDR USPACOM HONOLULU HI
RUEKJCS/JOINT STAFF WASHDC
RUCNDT/USMISSION USUN NEW YORK 2788
RUEHGV/USMISSION GENEVA 4722
RUEATRS/DEPT OF TREASURY WASHDC
RUEKJCS/DIA WASHDC
RUEAIIA/CIA WASHDC
RHEHNSC/NSC WASHDC
RUEKJCS/SECDEF WASHDC

C O N F I D E N T I A L SECTION 01 OF 03 RANGOON 000808

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SUBJECT: BURMA: IMF CONDUCTS 2009 ARTICLE IV CONSULTATIONS

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Classified By: P/E Chief Jennifer Harhigh for Reasons 1.4 (b and d).

Summary

11. (C) A team from the International Monetary Fund (IMF) and Asian Development Bank (ADB) have concluded two weeks of consultations with the Burma Government, UN representatives, diplomats and business experts, the annual Article IV consultations. The delegation reported the Government of Burma (GOB) was more cooperative during the current visit than in the past and seems to have improved technical capacity for compiling statistics. The IMF does not expect any major economic policy changes in the lead-up to the planned 2010 elections. The team concluded that May 2008's Cyclone Nargis and the global financial crisis have had less of a negative impact on the Burmese economy than expected, and they forecast Burma's GDP growth in 2009-2010 to be 4.8 percent, in contrast to the GOB dictated level of 12 percent growth.

12. (C) IMF economists discerned a significant decrease in the inflation rate, which they attribute in part to a decrease in global food prices. Another factor is that the GOB reportedly is financing its deficit and increased money supply by issuing Treasury bonds rather than just printing money, and Burmese banks increasingly view the bonds as relatively positive investments. Lack of access to credit remains a significant problem in Burma, particularly in the agricultural sector. The IMF recommended Burma liberalize its banking restrictions to spur private lending. End summary.

GOB Increases Cooperation with IMF Team

¶3. (C) On December 17, the IMF/ADB team, led by Meral Karasulu, gave a readout of the team's Article IV Burma visit to Charge. Karasulu thanked us for facilitating a roundtable December 3 with seven notable Burmese economists and businesspeople. The team reported that the GOB was more cooperative and supportive of requests for information during this visit than in the past. A Minister and the Central Bank Governor told the team that Burma is seeking more engagement with the international community, including with international financial institutions.

No Policy Changes Expected before 2010 Elections

¶4. (C) Despite the increased cooperation on a technical level, the IMF delegation acknowledged they do not expect any significant GOB economic policy changes in the lead-up to the 2010 elections. The GOB's top priority remains ensuring stability. The delegation reported an impression that GOB officials are discussing policy changes internally on multiple fronts for possible enactment following elections.

IMF Forecasts Modest GDP Growth

¶5. (C) The IMF delegation is "less pessimistic" at the end of the trip than when they arrived; Cyclone Nargis and the global financial crisis appear to have had less of a negative impact than expected. The team, which includes two statistical experts, plans to project a 4.8 percent GDP

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growth for 2009-2010, a slight increase from the 2008-2009 forecast of 3.6 percent growth rate. The IMF developed its estimate using both a "bottom up" and "top down" approach using available economic data, and the delegation praised improvements in the GOB's economic data collection and reporting. The Charge cautioned that any economic data originating from the GOB should be viewed with some skepticism. Nonetheless, all acknowledged the IMF estimate differs significantly from the GOB's officially sanctioned 12 percent GDP growth prediction, which the IMF noted is dictated by the senior generals rather than based on any solid data. The team agreed with the Charge's observation that any economic growth is severely skewed toward the top 5 percent of Burma's population, while the majority of people exist at near subsistence levels.

Decline in Inflation Rate

¶6. (C) The IMF delegation reported that inflation has declined, noting the 2006-2007 rate of 38 percent, 2007-2008 rate of 28 percent, and the 2008-2009 rate of 9.2 percent inflation. They attributed the decline in part to decreases in international food prices, which affect farm-gate prices even in Burma. They welcomed recent improvements in the new household survey for the Consumer Price Index (CPI) which the GOB presumably enacted in accordance with IMF recommendations.

Deficit and Bonds

¶7. (C) Another possible contribution to a decline in inflation is that the GOB has moved away from merely printing money to cover its budget deficit. The IMF delegation reported that the GOB is increasingly financing its deficit by issuing Treasury bonds which are sold locally to Burmese banks. Although Burmese banks are mandated by the GOB to purchase a minimum amount of bonds, the banks have begun purchasing more than their imposed requirements as they view the bonds, which carry an 11 percent interest rate, as a relatively positive investment, better than having funds sit

idle which often otherwise is the case here.

Monetary Policy Problems Persist

¶8. (C) The IMF delegation observed that Burma has no effective monetary policy and that interest rates remain administratively controlled, contributing to a nationwide lack of access to credit. Lending remains a disproportionately small portion of GDP at 3.4 percent. The GOB appears to recognize the banks are not able to lend effectively. The IMF team pointed to limited instances of liberalization, including banks reducing loan service charges to compensate for the lack of ability to reduce interest rates, and a modest decrease in onerous capital requirements for private banks to open new branches. However, the banking sector remains overregulated and banks are not willing to lend.

¶9. (C) The lack of access to credit is particularly worrisome in the agricultural sector. The Agricultural Development Bank is severely underfunded, yet it spreads its funds broadly for political reasons, allocating only 10,000

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Kyat (about \$10) to each farmer, not enough to make any difference. Also, banks impose 100 percent collateral requirements. Farmers end up taking loans in the informal market with up to a 10 percent monthly interest rate. The delegation noted that in some cases, traders receive financing from banks and lend to farmers, which offers some relief but can lock farmers into repayment schemes that remove the flexibility to make sound economic decisions. Microcredit assistance programs are helpful, but are a mere drop in the bucket.

IMF Advice to GOB

¶10. (C) The delegation reported it advised the GOB to make agriculture lending a top priority and allocate more resources to the Agriculture Development Bank. They advised the GOB to discontinue segmentation in the financial sector (e.g. only agricultural banks lend to the agriculture sector) and liberalize lending laws to reduce collateral requirements and encourage banks to lend. The Central Bank Governor privately told the delegation the GOB is deliberating changes to its lending policies. The delegation also raised the perennial necessity of harmonizing Burma's complicated exchange rate structure, but did not receive a positive response. The IMF noted, however, that Burma has pledged to adhere to the ASEAN Economic Blueprint to have a unified exchange rate by 2011.

Plea for Recognition of Anti-TIP Progress

¶11. (C) The IMF team conveyed to Charge, per a request from Transnational Crime Unit Chief Police Colonel Sit Aye, that the GOB is eager to be removed from the list of countries banned from receiving assistance from international financial institutions due to forced-labor and human-trafficking concerns. Sit Aye told the team Burma's listing had come to the attention of the Senior General and he wants Burma off the list. Sit Aye noted that Burma has made some progress on these issues. Charge replied that we are aware of Burma's progress but concerns remain, particularly about the reality that Burma's military continues to utilize forced labor and child-soldier recruitment. Those practices, within the GOB's power to resolve, need correcting.

Comment

¶12. (C) The GOB appears to have cooperated much more congenially than in the past with this year's Article IV

consultations; and officials delivered a clear message to the IMF team that they would welcome international engagement, including by the international financial institutions. The IMF delegation had a positive impression of the working-level bureaucrats they encountered, though they acknowledged an "embarrassing" lack of knowledge about basic economics among Burma's top brass. The downside, admitted by the IMF team is that, as with the political situation, there is no indication Burma's senior generals are yet prepared to take the necessary steps for meaningful economic reform.

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